

Y-BCS
BCS

1978

TO

BOEING COMPUTER SERVICES COMPANY

ON



Y-BCS
BCS

AUTHOR

Remote Computing Services CS
Industry Competitive Structure,
1978-1983. June 1978

DATE
BORROWER

BORROWER'S NAME



PRESENTATION
TO
BOEING COMPUTER SERVICES COMPANY
ON
REMOTE COMPUTING SERVICES INDUSTRY
COMPETITIVE STRUCTURE, 1978-1983

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I. INTRODUCTION

II. RCS INDUSTRY ACQUISITION ACTIVITY



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III. SCENARIOS FOR INDUSTRY STRUCTURE

IV. NEW ENTRANTS, IBM, AT&T, OTHERS

V. SCENARIOS FOR BCS DEVELOPMENT

VI. CONCLUSIONS

VII. RECOMMENDATIONS

BCS IN RCS INDUSTRY

- BCS OBJECTIVES

- RCS INDUSTRY LEADER
- PROFITABLE
- HIGH QUALITY

- CURRENT GROWTH PLANS (\$ MILLION)

	<u>1978</u>	<u>1982</u>
– COMMERCIAL	80	150
– RCS	30	120

- RCS BUSINESS NATURE

- 90 PERCENT UTILITY/10 PERCENT APPLICATIONS, 1978
- 50 PERCENT UTILITY/50 PERCENT APPLICATIONS, 1982

- INITIAL APPLICATIONS – FUNCTIONAL

- FINANCIAL/ANALYTICAL
- ENGINEERING/ANALYTICAL

- GOVERNMENT MAJOR COMPONENT OF UTILITY

ADP

- \$50 MILLION ACQUISITIONS IN 4 YEARS
- 22 COMPANIES
- RCS ACQUISITIONS
 - \$48 MILLION CONTRIBUTION 1978
 - INVESTMENT RECOVERED BY 1979
 - NATIONAL/INTERNATIONAL EXPANSION
 - RELATIVELY LOW CORPORATE INVOLVEMENT
 - SECONDARY ACQUISITIONS TRANSFERRED TO PRIMARY
- GET Foothold FIRST THEN EXPAND
 - GEOGRAPHIC
 - MARKET SHARE

EUROPEAN RCS MARKET

- LEADERS ARE U.S. COMPANIES
- U.S. RCS COMPANY PARTICIPATION
 - VARIETY OF APPROACHES TO ENTRY
 - RESULTS HAVE VARIED
- EUROPEAN VENDORS UNLIKELY TO ENTER U.S. RCS MARKET (WITH NOTABLE EXCEPTIONS)
- ACQUISITION PACE 'HOTTING UP'

ANTICIPATED ACQUISITION ACTIVITY

<u>COMPANY</u>	<u>ACQUISITION TYPE</u>
ADP	INTERNATIONAL (EUROPE) BANKING AND SAVINGS AND LOAN FINANCIAL SERVICES (FOR SMALL COMPANIES) DEC-10 T/S COMPANY FINANCIAL TURNKEY INSURANCE
CSC	INTERNATIONAL FINANCIAL IBM-BASED TRANSACTION IN MEDICAL, BANKING, GOVERNMENT
ITEL	GEOGRAPHIC FINANCE AND BANKING INSURANCE TAX SCIENTIFIC
NCSS	FINANCIAL DATA BASE GOVERNMENT INFORMATION HANDLING
TYMSHARE	BANKING AND FINANCIAL (C.U., CREDIT CARD) TAX SERVICES GOVERNMENT
<u>AND</u> <u>MANY OTHERS</u>	MEDICAL

IMPACT OF ACQUISITION ACTIVITY

- EFFECT ON TOP LINE VARIES IN SHORT TERM
 - MINOR, ADP, ITEL
 - MAJOR, CDC, INFORMATICS
- RELATIVELY LOW COST ENTRY INTO NEW MARKETS
- LOW RISK PRODUCT/SERVICE EXPANSION
- SHIFT BUSINESS BASE TO BETTER MIX OVER TIME
- VEHICLE FOR QUALITY STAFFING
- VALUE CRITERIA FOR LATER ACQUISITIONS
- INTEGRATION VARIES
 - STRONG ACQUISITIONS RUN THEMSELVES
 - IN OVERLAP CASE, CAN DOMINATE
 - WEAK ACQUISITIONS REQUIRE MANAGEMENT ATTENTION

IMPACT OF INDUSTRY SPECIALIZED COMPANIES

- THEY WILL GROW THROUGH ACQUISITION
 - EDS
 - SHARED MEDICAL
- RCS WILL REPLACE BATCH MODE (EDS)
- THEY WILL ADD "TIMESHARING" SERVICES
- "LOCK OUTS" FOR APPLICATION AREAS (SHARED MEDICAL, XCS)
- "LOCK OUTS" FOR GENERAL BUSINESS SERVICES (ADP IN BANKS)
- EASIER FOR SPECIALISTS TO GENERALIZE THAN FOR GENERALISTS TO SPECIALIZE
- SPECIALISTS HAVE ACCOUNT CONTROL

INDUSTRY GROUPINGS, 1978-1982

- 1978 COMPUTER SERVICES
 - 9 COMPANIES > \$100 MILLION
 - 70 COMPANIES > \$10 MILLION
 - 230 COMPANIES \$2-10 MILLION
- 1978 RCS NON-SPECIALIST
 - 2 COMPANIES > \$125 MILLION
 - 5 COMPANIES > \$50 MILLION
 - 9 COMPANIES > \$10 MILLION
- 1982 COMPUTER SERVICES*
 - 2 COMPANIES > \$800 MILLION
 - 5 COMPANIES > \$400 MILLION
 - 15 COMPANIES > \$200 MILLION
- 1982 RCS "NON-SPECIALIST"*
 - 2 COMPANIES > \$400 MILLION
 - 5 COMPANIES > \$150 MILLION

* INCLUDING ACQUISITIONS

MINIMUM SIZE CRITERIA
FOR TOP TIER RCS
.....COMPANIES

	<u>1978</u>	<u>1983</u>
RCS	\$50 MILLION	\$150 MILLION
SPECIALIZED	\$25 MILLION	\$ 75 MILLION
INTERNATIONAL	\$10 MILLION	\$ 50 MILLION
TOTAL	\$100 MILLION	\$275 MILLION

APPLICATION SPECIALTY LEADERS

(APPROXIMATELY \$10 MILLION)

FINANCIAL FUNCTION:

- | | |
|----------------|-----------------|
| ● CDC/SBC | ● GEIS |
| ● DRI | ● UCS |
| ● TYMSHARE | ● TRW |
| ● ADP | ● BUNKER RAMO |
| ● IDC | ● GTE |
| ● NATIONAL CSS | ● QUOTRON |
| ● RAPIDATA | ● ITEL |
| ● CSC | ● BRADFORD |
| | ● WESTERN UNION |

ENGINEERING FUNCTION:

- CDC
- MCAUTO
- UCS
- UCC
- ITEL

APPLICATION SPECIALTY LEADERS

(APPROXIMATELY \$10 MILLION)

GOVERNMENT

- CSC
- BCS
- COMNET
- OPTIMUM SYSTEMS, INC.
- TYMSHARE
- GEIS

IBM ENTRY TO COMPUTER SERVICES IN U.S.

- IBM'S TARGETS – \$31 BILLION BY 1982,
\$55 BILLION BY 1987
- RCS ONLY (UNLIKELY) POSSIBILITY FOR TRADITIONAL SERVICES:
 - AFTER 1982
 - INTEGRATED WITH HARDWARE/COMMUNICATIONS
- INFORMATION SERVICES GROUP WILL BE FORMED:
 - PROVIDE SPECIFIC UTILITY SERVICES
 - WILL SUPPORT INDUSTRY SPECIALIZED TOTAL SOLUTIONS
- IMPACT ON RCS FOR BCS – NEGLIGIBLE IN THIS TIME FRAME

NEW INFORMATION INDUSTRY ENTRANTS

- COMPUTER MANUFACTURERS
 - TIED TO HARDWARE
 - PROBABLE IN 1980'S
- COMMUNICATIONS COMPANIES
 - NETWORK ORIENTED SERVICES
 - EXTENSIONS OF VANS
- SEMICONDUCTOR/MINICOMPUTER COMPANIES
 - LOOKING FOR 'END USER' ORIENTATION
 - NEED FOR NETWORKS
- OIL AND FINANCIAL COMPANIES
 - DIVERSIFICATION
 - DELIVERY VEHICLES
- IMPACT — ACQUISITION PRICE WILL INCREASE

CONCLUSION

- MAJOR ACQUISITIONS WILL TAKE PLACE
- RCS LEADERS WILL GROW AT 20 PERCENT – 30 PERCENT PER YEAR
- SPECIALIST AND OTHER COMPANIES WILL ENTER RCS
- MARKET OPPORTUNITIES WILL BE LIMITED FOR BCS
- SECOND TIER COMPANIES CAN SURVIVE AND BE PROFITABLE
- WITHOUT MAJOR ACQUISITION/S BCS WILL:
 - NOT QUALIFY AS COMPUTER SERVICES LEADER
 - NOT QUALIFY AS RCS LEADER
- IN TERMS OF SPECIALTY AREA LEADERSHIP, BCS:
 - PROBABLY COULD BE GOVERNMENT RCS LEADER
 - POSSIBLY COULD BE ENGINEERING RCS LEADER
 - UNLIKELY COULD BE FINANCIAL RCS LEADER

RECOMMENDATIONS

- TO ACHIEVE OBJECTIVES BCS SHOULD ACQUIRE MAJOR RCS COMPANY WITH EMPHASIS ON FINANCE
- INTEGRATE COMMERCIAL BUSINESS INTO IT
- CONSIDER OTHER ACQUISITIONS FOR
 - GOVERNMENT
 - ENGINEERING
- MAKE INTERNATIONAL EXPANSION THROUGH ACQUISITION

RCS ACQUISITION CANDIDATES (OPEN)

- FINANCIAL

- DATA RESOURCES
- NATIONAL CSS
- RAPIDATA
- TYMSHARE

- ENGINEERING

- UCC
- MDSI

- GOVERNMENT

- COMNET
- NATIONAL CSS
- ON-LINE SYSTEMS
- TYMSHARE

RCS ACQUISITION CANDIDATES (OPEN)

- INTERNATIONAL
 - ON-LINE SYSTEMS
 - UCC
- OTHER
 - NATIONAL DATA
 - QUOTRON
 - COMSHARE

ITEL

- 15 ACQUISITIONS - 1975 TO 1978
 - 5 POOLINGS, 10 PURCHASE
 - MORE THAN \$50 MILLION
 - TEND TO PAY HIGHER PRICE FOR ACQUIRED COMPANIES
(E.G. AUTEX)
- TENDENCY TO BUILD SENIOR MANAGEMENT STAFF AROUND
ACQUIRED PERSONNEL
- ACQUISITION PROGRAM SLOWED IN 1977, BUT
 - 1976 - \$23 MILLION
 - 1977 - \$ 8 MILLION
 - 1978 -\$7.5 MILLIONPICKING UP IN 1978

ITEL

- NO PARTICULAR STRATEGY IN ACQUISITIONS
 - BANKING VERSUS OTHER FINANCIAL
 - AUTOMOBILE DEALER SERVICES
 - HEALTH CARE
 - MINI AND TURNKEY
 - LARGE SCALE SCIENTIFIC
 - INSURANCE
- PRODUCT ACQUISITION RATHER THAN GEOGRAPHIC EXPANSION
- RELATIVELY LOW AMOUNT OF RCS

TYMSHARE

- ACQUISITIONS TOTAL \$28 MILLION – 1975 – 1978
 - ONE-THIRD OF REVENUE GAIN 1976 – 1977
- 9 COMPANIES ACQUIRED (NOT INCLUDING INTERNATIONAL JOINT VENTURES) IN 4 YEARS
- ACQUISITIONS ARE INDUSTRY ORIENTED RATHER THAN RCS
 - MEDICAL
 - TAX
 - FUEL OIL
 - FINANCIAL
- ACQUISITION PROGRAM SLOWED IN 1977 BECAUSE OF PREVIOUS YEARS TROUBLE
- GOAL OF REACHING 20 PERCENT PRETAX LEVEL BY 1980 OVERSHADOWS TOP LINE GROWTH OBJECTIVE

TYMSHARE

- TENDENCY NOT TO USE ACQUIRED MANAGERS IN KEY POSITIONS OF LINE MANAGEMENT
- INTERNAL DEVELOPMENTS ARE CROSS INDUSTRY ORIENTED
 - PERSONNEL EVALUATION AND REPORTING SYSTEM
 - FOCUS
- PERCENTAGE OF RCS REVENUE DROPPING
 - 100 PERCENT 1972
 - 50 PERCENT 1980 (ESTIMATE)

ATT

- GOALS

- LONG TERM MARKET FOR MOVEMENT OF DATA AND COMPATABILITY OF INFORMATION
- STORAGE AND DISSEMINATION OF INFORMATION

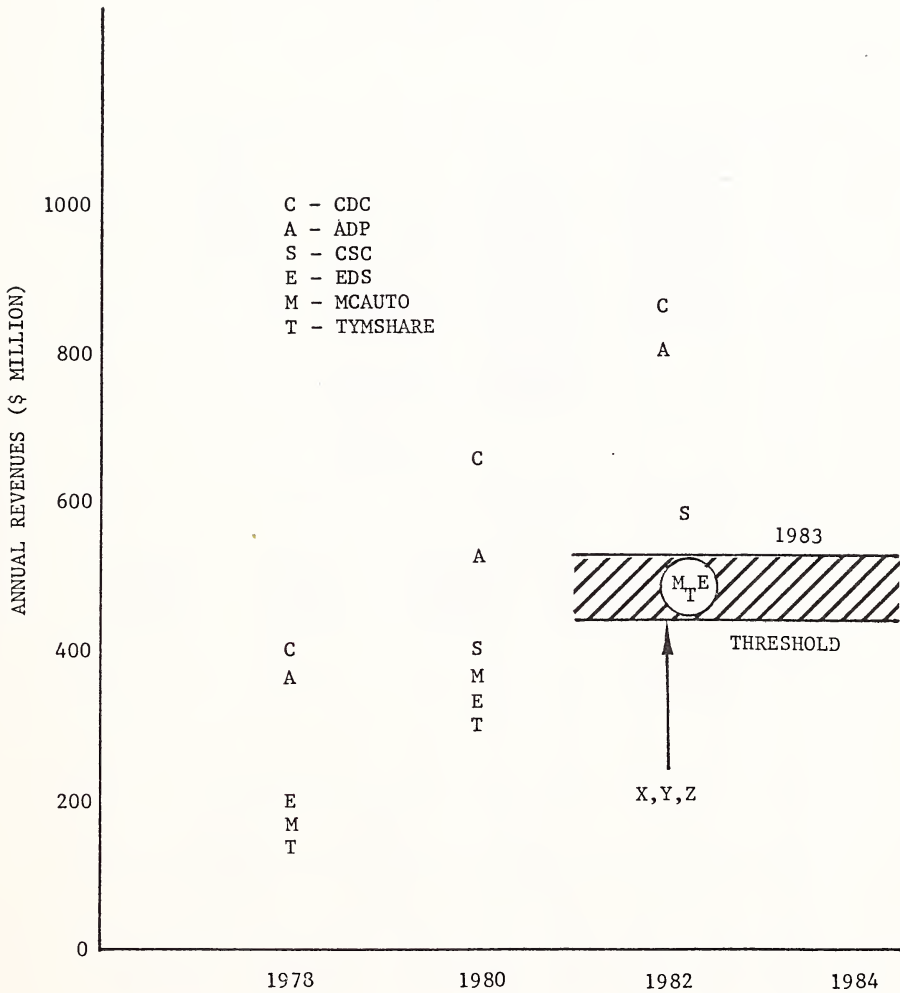
- MARKET ENTRY POINTS

- OFFICE OF FUTURE
- VANS
- DATA BASE STORAGE AND DISTRIBUTION

- STRENGTHS

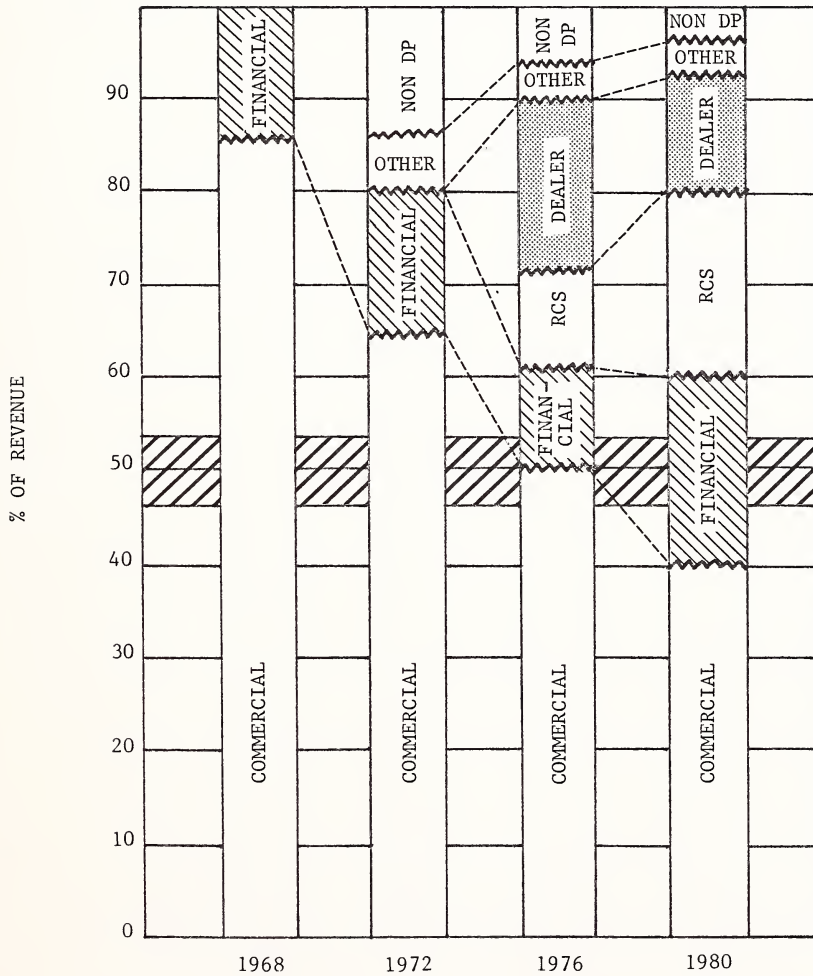
- NETWORK
- MONEY (RESOURCES)
- TECHNOLOGY

COMPUTER SERVICES LEADERS



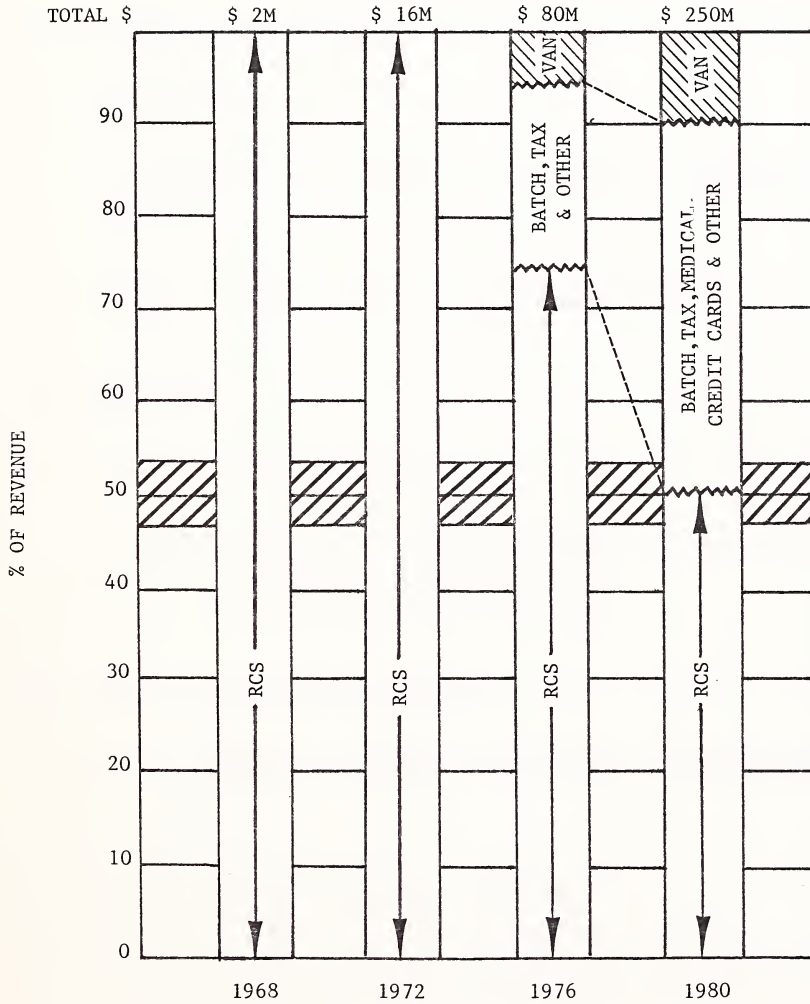
ADP

DISTRIBUTION OF REVENUES
BY PRODUCT LINES



TYMSHARE

DISTRIBUTION OF REVENUES BY PRODUCT LINES



ATT

● WEAKNESSES

- POOR SUPPORT IN DATA AREA FOR SOPHISTICATED PRODUCTS
- TIMETABLE
- ANNOUNCE VANS WITHIN 6 MONTHS THEN 2 YEAR LEGAL BATTLE
- 10 TO 20 YEARS UNTIL FULL IMPLEMENTATION

● SERVICES

- AS SIMPLE AS POSSIBLE
- PACKET SWITCHING, STORAGE, MESSAGE AND ELECTRONIC MAIL PREPARATION AND DISTRIBUTION

● IMPACT ON COMPUTER SERVICES

- WILL COMPETE IN SIMPLE AREAS WHERE DISSEMINATION IS KEY
- VALUE OF NETWORKS WILL DECREASE
- VALUE OF PROGRAMS AND PROPRIETARY DATA WILL INCREASE

CONCLUSIONS

DOES THIS FORCE BCS TO A MAJOR ACQUISITION PLAN?

- TO SURVIVE SUCCESSFULLY?

NO! BUT BCS MUST CHANGE DRASTICALLY

- TO BE A LEADER?

YES!

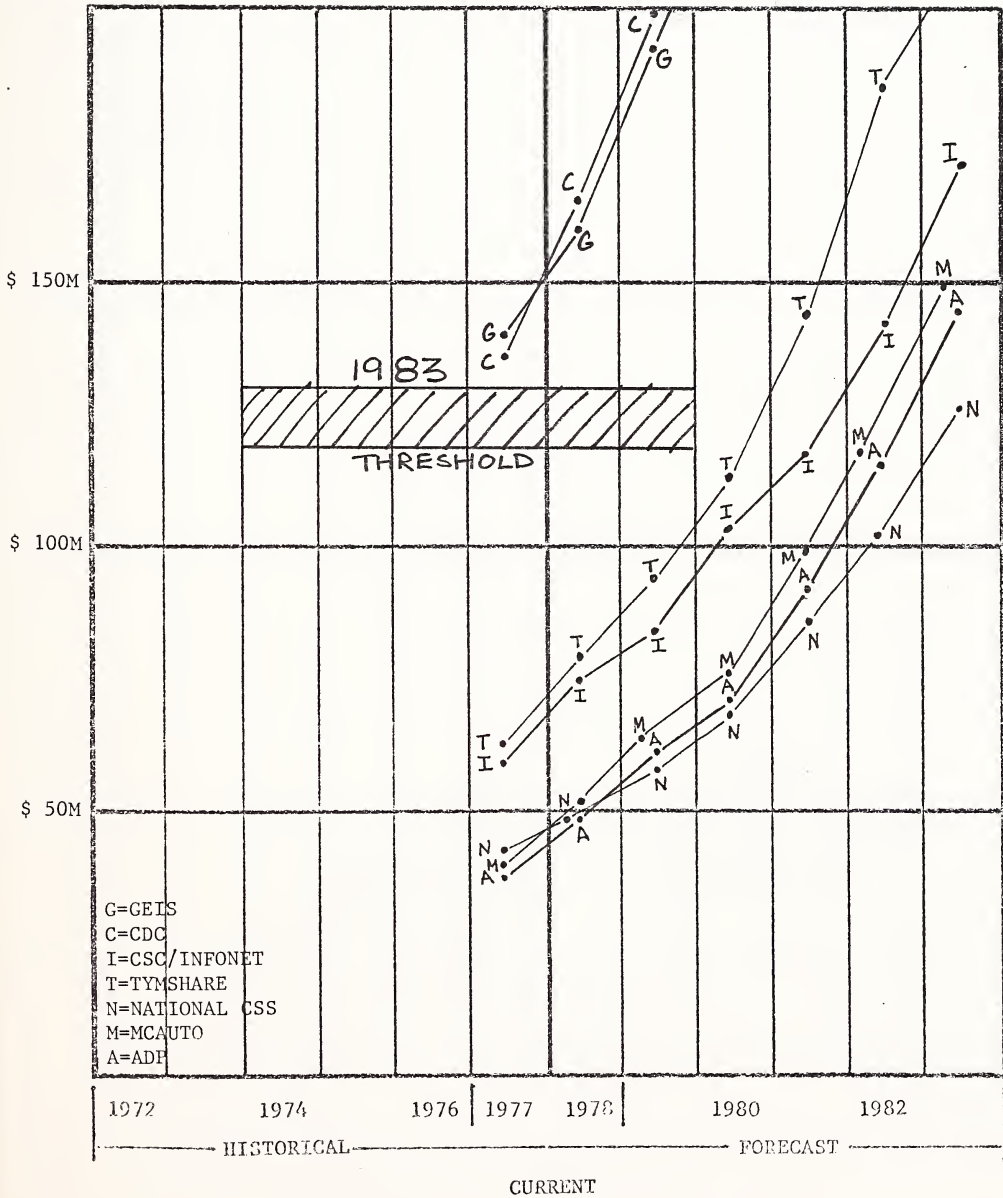
WHEN SHOULD THIS ACQUISITION PLAN BE IMPLEMENTED?

- SOON! AS QUICKLY AS POSSIBLE

MAJOR VERSUS MULTIPLE MINOR ACQUISITIONS?

- MAJOR!

RCS LEADERS - 1983



RCS LEADERS - 1978

